

**CITY OF SCOTTSDALE
RISK MANAGEMENT DIVISION
BOARD OF TRUSTEES
TRUSTEE MEETING MINUTES**

The annual meeting of the Loss Trust Fund Board of Trustees was hosted by Risk Management on November 13, 2003, at the City of Scottsdale, Corporation Yard, Turquoise Room, 9191 E. San Salvador Dr., Scottsdale, Arizona. Those in attendance were:

Trustees:

Tom Hartley
James Hickok
William Chamberlain

Staff:

Barbara Burns, Assistant City Manager
Craig Clifford, Financial Services General Manager
Neal Shearer, Human Resources General Manager
Joe Mardeusz, Senior Benefits Analyst
Joe Kisler, Department Advisor
Cyndi Coniam, Human Resources Manager Administration
Myron Kuklok, Risk Management Director
Paul McKee, Risk Services Manager
Mike Mason, Claims Manager
Erin Taylor, Workers' Compensation Claims Specialist
Raudel Castanon, Support Specialist
Ricka Hughes, Administrative Secretary

Absent:

David Bresnahan, Boardmember
Doug Hockersmith, Boardmember
Sue Welch, Contracts Coordinator, Risk Management Division

The meeting began at 8:00 a.m. The Trustees were presented with a copy of the City's FY 02-03 Risk Management Annual Report prior to the meeting.

Myron Kuklok opened the meeting with introductions of the attendees. A quorum was established with three of the five Board members present at the start of the meeting. Myron stated that he will meet with the absent Boardmembers later.

A packet of information was handed out to the attendees. The packet contained an agenda and other items to be discussed.

The first attachment Myron explained was last year's Board letter dated January 15, 2003. Myron recapped the significant thing that was done at last year's Board meeting was to establish a criteria/framework for continuity to measure from year to year the margins and the

respective funds to see if they were overfunded/underfunded, etc. This criteria established by the Board was for Property-Casualty and the Self-Insured Group Health Plans -Actuarial Value of Losses, Actuarial Confidence Level, and Margin Factor. The margin factor was the big continuity item that the Board felt strongly about last year.

The next attachment reviewed was a printout of Scottsdale Revised Code, Section 2-171 relating to Advisory Trustees. This pertains to what the advisory trustees shall be responsible for.

The next attachment explained was a copy of the Loss Trust Fund Financial Condition. Myron explained preliminarily and will come back to this item later. This chart details the loss trust fund financial condition as of June 30, 2003. The Property-Casualty (which includes General Liability, Workers' Compensation, Vehicle Liability, Vehicle Physical Damage and Property) loss trust fund balance is \$12.2 Million. The value of the actuarially projected pending obligations for open claims is \$11.0 Million. That leaves a balance of approximately \$1.2 Million, which means it is funded at a 111% level.

The Property-Casualty losses are valued at a 90% confidence level. What that means is that statistically the City looks for outcomes that fall within the number or below in nine out of 10 years.

The other part of the trust fund is the Self-Insured Health Plans. The fund balance is approximately \$5.2 Million, the value of actuarially projected pending obligations for open claims is \$2.0 Million, and the excess is about \$3.2 Million. That is funded at a 261% level.

The next item for discussion was Cost of Risk. This was found on page 2 of the 02-03 Risk Management Annual Report ("Annual Report") that was provided to everyone in attendance. This is the primary measure of the Risk Management Division in the Property-Casualty area. This is a "cash out the door" calculation. Risk Management's goal is to keep the "cash out the door" at or below 2% of the operating budget every year. Over the last six years, the Risk Management cost percent to City budget is about 1.86% so we've been fairly successful in achieving our goal.

The next item for discussion was the Annual Report, City Six-Year Overall Loss Performance. This represents all departments throughout the City.

First, for General Liability frequency per million budget, the City has been operating at the performance objective goal, and this last year has been real good from a frequency standpoint.

For General Liability cost of losses per million budget, the value of the losses is more volatile. This is due to employment and police cases that tend to be rather volatile. For Workers' Compensation frequency per million hours worked, the City is doing real well. There is a good four-year trend.

For Workers' Compensation losses per million hours worked, FY 01 and 02 were a series of bad years. There were three very bad police Workers' Compensation cases. This last year, however, has been fairly good.

For Vehicle Liability frequency, the City is performing fairly well as well as from a value standpoint.

For Vehicle Physical Damage frequency, FY 01-02 was particularly bad although it came down this year. This trend also follows for value as well.

Bill Chamberlain inquired about page 7 of the Annual Report, Accident Frequency per Million Miles. It states it is 7.12, which is up a point from the year before. Myron explained this rise is due to an increase in frequency of losses in FY 02-03. The value of incurred losses also increased dramatically.

James Hickok inquired if this rise is due to bad driving and population. Myron explained that the vehicle area is one of the City's biggest exposure areas. One of the things Risk Management does is provide Smith Driving Course and Defensive Driving Training.

Tom Hartley asked if the City started the Smith program in the FY 98-99 because there is a huge dip in the rates. Paul McKee explained that Risk has been doing Smith classes for about 3 ½ years now. Risk also does refresher training for employees. Paul believes the one piece that is missing is patrol officers have not gone through the on-road portion of the Smith driving training. Because of budgetary problems and logistics, Risk has not yet put them through the on-road portion. In this year's Action Plan for Police, one of the items is to have all patrol go through the training.

Bill Chamberlain mentioned that he noticed several action plans listed in the Annual Report include the driver training and questioned if driver training is mandatory in order to be able to drive as a City employee. Paul McKee explained that it is mandatory that City employees who drive vehicles go through an 8-hour Defensive Driving Class, which Smith is a part of that class. The action plans are calling for employees to go through refresher training because there may be employees who have not attended a driver training course in some time. Craig Clifford stated the problem in getting the Police Department staff through the training has been budgetary constraints and time logistics.

Myron then went on to explain page 9 of the 02-03 Risk Management Annual Report, Total All Lines Coverage. This an overall Citywide loss value to budget. In all coverage areas for loss value, compared to budget, the trend is down. Overall, the City is doing quite well.

The next item for discussion was the Loss Prevention VPP Program. Paul McKee first gave a brief overview of what the City's relationship is with OSHA through the VPP program. Paul also explained, in addition to historical data and trending, Risk uses the Annual Report to meet with the various general managers and directors, go over the history, and also go over action plans for what Risk wants to accomplish in terms of safety goals for the coming year.

Paul McKee then went over the Police action plan in this year's Annual Report to demonstrate the action items Risk expects to accomplish in the coming year.

James Hickok stated that Risk mentioned that part of the shortfall last year was budgetary. Since it is in this year's action plans, James asked if there is now money for the program. Paul McKee explained that what Risk is going to try to do, in lieu of pulling all patrol staff out, is to go into their briefings and do ride-alongs to do the on-road portion of the program to make it more cost-effective. The reason Police has been dragging their feet on completing the training has been budgetary constraints. Craig Clifford then mentioned that it is also a logistical issue – the time that it takes to get that many staff through the program might impact their overtime and the City is trying to minimize overtime.

Bill Chamberlain then asked about what kind of budgetary impact would there be to force the Police to accomplish the training. Craig Clifford again stated that time is the issue and, if they can't do it without impacting their regular shifts, overtime is involved. This could be quite costly.

Tom Hartley asked if money could be taken out of the Loss Trust Fund to pay for any overtime to get full attendance in the on-road portion of the class, if necessary. Craig Clifford affirmed that this is possible. Paul stated that the proposed way of doing the training (ride alongs) will eliminate any overtime for the patrol staff. However, there may be some overtime associated with Police personnel who are training Smith instructors to teach the driving portion, but this overtime cost is minimal compared to the alternative. Myron stated that language will be included in the upcoming Trustee recommendation letter about possible funding of this training through the Trust Fund, if necessary.

The next item Myron addressed was a question David Bresnahan asked him prior to the meeting. In the packet is a recap of City insurance premiums. This chart shows the rate increases, limit decreases and deductible/SIR changes to the City's insurance coverage as a result of 9/11. Overall, this is a 500% increase as a result of the Property-Casualty insurance market change. Myron added that the City's loss performance is exemplary. The increases were not because the City was a bad account, but were strictly due to the market. Myron expects the same level costs for this coming year as this year. The majority of our cost increases in Property coverage was due to Flood insurance. This is because the Water Campus and CAP Plant are in Flood Zone AO and are worth approximately \$150 Million. The Workers' Compensation Excess coverage affected the City heavily as well. This is due to a very bad national experience for Workers' Compensation. Myron expects to continue to see cost increases in this area. Craig Clifford mentioned that the City also needs to take into consideration the cost implications of instituting a municipal fire department.

The next item for discussion was the City's Health Benefits. Joe Mardeusz presented information and provided background regarding the City's health benefits package. Currently the City has five health plans – three HMO's and two self-insured plans with \$250 and \$1,000 deductibles. These self-insured plans comprise 25% of the employee population. Since the current contracts are expiring this year, HR had several objectives in obtaining a quality benefits plan for employees.

One of the objectives was to align benefits with the fiscal year as opposed to the current calendar year format. In January 2004, the City will go to an 18-month period for benefits and then align to the fiscal year starting July 1, 2005.

Also, as a cost containment measure, the City reduced the number of health plans from five to three – one Aetna EPO and two Mayo PPO plans (\$750 and \$1,000 deductibles). The City also went to a more equitable “fixed dollar” contribution strategy, which means employees choosing a more expensive plan will pay more for premiums than those who choose less expensive plans. The City also cost shifted to the employees some out-of-pocket expenses and co-pays/user fees.

The City also now totally self-insures all its health plans. This arrangement has benefits for the City, but it also means the City assumes the risk for plan costs. However, the City limits that risk by purchasing Stop Loss coverage. The City also maintains a Self-Insurance Trust Fund. Starting January 1, 2004, all participants will be in a self-funded environment for health insurance.

Tom Hartley asked how the stop loss program is going to work. Joe Mardeusz explained that the stop loss will be an umbrella type program where the City will not purchase stop loss coverage through the individual providers because this is too cost prohibitive, but Willis will work with various stop loss providers to get the best deal for the City. There will be one stop loss provider covering the entire group of participants.

Tom Hartley then asked about specific attachment points on stop loss. Joe Mardeusz responded saying our current specific attachment point is \$200,000. Willis will quote \$200,000, \$250,000 and probably \$300,000.

Tom Hartley then asked about on the aggregate side. Joe Mardeusz responded that our current aggregate corridor is at 125% and Willis will also look at a couple of other options including not even offering an aggregate. Joe doesn't see the City going there but it will be considered.

Tom Hartley then asked if Willis thinks 125% is the best scenario for the City. Joe Mardeusz said that this is Willis' opinion. Myron then mentioned that, in the stop loss market, the corridor of 125% aggregate is standard. The stop loss trigger for the group is based on a claims forecast. In the City's case, the projection is \$10.8 Million. The stop loss carrier will install a corridor of 125% so that the trigger of the aggregate will not occur until approximately \$13 Million is reached. Joe mentioned that the aggregate attachment point for the current 25% of the City population in self-funded health insurance plans is about \$3.8 Million. Through the first nine months of this year, the City has incurred claims of about \$1.8 Million. The providers set an aggregate attachment point at an amount that is fairly difficult to reach. The aggregate corridor comprises less than 10% of the stop loss coverage. The greatest cost for stop loss coverage is the specific amount, but this is also where the greatest savings are achieved due to the attachment points that are set.

In 2002, the City had a specific attachment point of \$100,000. Because of price increases, the City cannot afford to keep that level of attachment point. So, in order to gain some savings on

coverage, the City increased the specific level from \$100,000 to \$200,000. The City has been partially self-insured for over 10 years and has a good claim history. In the last seven years, the City has not had a claim reach the \$100,000 specific level. Myron then mentioned that, for the aggregate, if the City's expected losses are \$10.8 Million and the aggregate triggers at \$13.5 Million, then the City has no further financial obligation. Because this will be the first year that the City will be 100% self-insured, Myron suggests that this coverage is good to have, at least initially.

Joe Mardeusz explained that, on the dental side, the City has a PPO plan that remains unchanged and has a new fully insured HMO in Fortis.

Joe Mardeusz then mentioned that there is a committee that meets monthly to review the performance of the plans. Trends are examined that could possibly affect the performance of the plan and the committee also does intermediate and long-term strategic planning. Prescription benefit cost performance is also examined.

Bill Chamberlain asked about the new option of employees opting out of the plans and how many employees chose that option. Joe Mardeusz responded saying those numbers are not in yet because open enrollment just ended. Joe predicts it will be minimal because the City's contribution level makes it affordable for employees.

Bill Chamberlain then wanted to clarify that the contracts are one-year contracts with the exception of the first contract term, which is 18 months. Joe Mardeusz confirmed that is the case. The Council adopted an initial 18-month contract, with the option to renew for nine additional one-year terms.

Bill Chamberlain then asked if the City has been approached by the Governor's Office about inclusion into the public employee ACCSS program. Joe Mardeusz responded that he is not aware of any contact in this regard. Some discussion followed.

Tom Hartley then asked when was the last time the City did a benchmark study on the design of the City's program. Joe Mardeusz responded by stating that, as part of the process, the City benchmarked against other Valley municipalities its contribution rates and plan design. For total premium costs, the City came out on top for lowest out-of-pocket cost per employee. The City still continues to offer four tiers of coverage – employee only, employee + spouse, employee + child, and employee + family. Most Valley cities are now only offering two tiers – employee only and employee + family.

Tom Hartley asked if the City is able to benchmark the tradeoff by having the most attractive benefits program and quality employees. Neal Shearer answered stating that that is the balance the City tried to achieve – fiscal integrity and employee relations.

Bill Chamberlain asked Neal Shearer to send him a copy of the final figures of the enrollment data.

Myron then mentioned that all the changes that took place with the bids this year positions the City for the next three to five years of double digit medical cost inflation. Craig Clifford stated that all these changes will hopefully position the City for single digit increases rather than double digit increases that the City had been experiencing.

The next item Myron explained was the Summary Sheet handout. For Property-Casualty, the City is 111% funded for actuarial obligations. Staff recommends that this margin stay intact because of the volatility of claims that can occur due to the fact that the City has a \$2 Million Self Insured Retention per occurrence for every liability claim. For Self-Insured Group Benefits, currently as of June 30, 2003, the City is funded at 261% funded of the actuarial liabilities. Because the City will be going from a 25% self-insured scenario to a 100% self-insured scenario, the accrued liabilities will grow dramatically. This increase will absorb some or all of the reserve in this account. It is roughly estimated that the accrued liabilities as of June 30, 2004 will be about \$3.4 Million, which will absorb a great deal of the \$5.4 Million that is currently in the fund. As of June 30, 2005 with a full year of total self-insurance, it is estimated that the accrued liabilities will be \$6 Million. This means the margins will essentially disappear. Discussion followed.

Craig Clifford mentioned in regard to the Health Plan reserve that, while the fund currently exceeds the current reserve levels, the City expects to be budgeting for more costs in the future, which should reduce the amount of the reserve. Craig also mentioned that the reason the reserve has grown is due to 1) exceptional claims history on the City's self-insured plans; and 2) all the excess from the fully insured plans was placed into the reserve. This was done because it was anticipated that large future increases were possible. Originally the City did not plan on self-insuring its health plans. However, it was determined it was most cost effective for the City to fully self-insure. This reserve is in place to protect the City for the corridor for today as well as what is conservatively predicted for the future years. Staff recommends that this fund remain intact for that purpose. In the next 12 to 24 months, the City will get actuarial studies to see exactly how things are going.

Bill Chamberlain mentioned that the letter to the City Council should probably include a phrase that the claims experience requires that the reserve remain to offset future costs.

Tom Hartley suggested that the letter to the City Council should explain why the \$6 Million figure is the right number – the money is there because it is based on a 100% self-insurance scenario versus the 25% self-insurance scenario over the next 18 months. Tom mentioned that, if it becomes cost ineffective to purchase aggregate stop loss coverage, it may be necessary to increase the reserve higher.

Myron reiterated that he will draft a letter for the Board's review. He will meet personally with Doug Hockersmith and David Bresnahan and go over the same material, and come up with a final collective letter to have the Board sign and submit to City Council.

Tom Hartley restated that the letter to the Board needs to clarify why the Trust Fund level for the Health side should be higher than the 25% threshold. The Property-Casualty side of the fund is fine at the current threshold. Craig Clifford stated that it could be addressed with language

suggesting explaining why, at this point, an exception needs to be made because the threshold will be brought back in line once the year has ended.

Tom Hartley suggested addressing next year that the City should consider allowing more margin in the fund other than exactly what we need to cover the corridor. Craig Clifford recommended waiting to address that until the City sees how things progress and evaluates data.

The meeting adjourned at 9:45 a.m.

Ricka Hughes
Administrative Secretary

Signed,

Myron J. Kuklok
Risk Management Director

Date